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28 November 1984

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MEMORANDUM FOR:

Deputy Director of Personnel
for Employee Benefits and
Services

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FROM:

SUBJECT: Retirement System for New Employees

This will supplement our exchange of views and the comments I made in our meeting of 5 November 1984.

A. Ideally, a retirement system should be designed to serve the personnel management needs of the Agency. It should help the Agency to recruit the numbers of employees it needs, with the qualifications to carry out the mission. It should help to retain needed skills through the peak years of employee effectiveness, and it should facilitate retirements at times and in numbers that best serve the interests of the Agency.

B. A retirement system also serves as a fringe benefit for employees. From an employee viewpoint, the ideal retirement system would be one that permitted retirement at an early age, with an annuity replacing most of final pay and fully protected from inflation after retirement, but at the same time would not retire employees involuntarily or at inconvenient times. Elliott Kaplan, who was appointed by President Truman to head a Retirement Study Group, said the ideal retirement system from an employee perspective would be one that permitted retirement on full pay effective the day before the date of initial appointment.

C. We need to design a retirement system that will best serve Agency needs and at the same time provide a generous fringe benefit for employees. This means providing retirement benefits that will replace a percentage of pay high enough to make it economically feasible for employees to retire when the Agency would like for them to retire, but without being so high or available at ages so early that employees are induced to retire with their most productive years still ahead of them.

D. In 1964 the idea of a special retirement system for certain Agency employees was sold to the Congress primarily on two justifications:

1. The need to retire certain employees (whose services are essential to carrying out the mission of the Agency) before their effectiveness is diminished or destroyed; and,

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2. The need to induce enough 20 and 25 year employees to retire to permit a steady intake of new young employees in order to keep a young and vital workforce rather than one with an ever-increasing average age.

For the past twenty years the CIA Retirement Act of 1964 has served its original objectives well. Retirements under CIARDS in Fiscal Year 1984 were at an average age of 54.1 years; four years younger than the average age of 58.1 years for Agency employees retiring under Civil Service Retirement.

E. The retirement annuity of CIARDS participants is now less generous than the benefits provided by CSR to other kinds of special employees. While CIARDS has a straight 2 percent of Hi-3 computation formula, CSR gives:

- a. 2 1/2 percent of Hi-3 to members of Congress and Congressional employees.
- b. 2 1/2 percent for the first 20 years and 2 percent for years over 20 to law enforcement officers including FBI agents.
- c. Fifty percent of Hi-3 to air traffic controllers with 20 to 27 years of service plus 2 percent of Hi 3 for additional service. This is a 2 1/2 percent computation for controllers with 20 years of service and 2 percent for employees with 25 years.

D.C. Policemen and Firemen had a formula of 2 1/2 percent of final pay times years of service for optional retirement after 20 years. This resulted in the loss of personnel at ages of peak performance, so the D.C. Government sought and obtained a formula of 3 percent for years between 20 and 30, with a maximum annuity of 80 percent, to provide an inducement to stay beyond 20 years. Note that the inducement to stay stops abruptly after 30 years of service.

The lack of equity between CIARDS participants and other special employees makes the thought of liberalization very attractive.

F. While I agree that a strong offense is often the best defense, I think 1985 may well be the most difficult year we have ever seen for obtaining liberalized retirement benefits. Over the years, the major liberalization (1926, 1930, 1942, 1948, 1956) have all been actively sponsored by whatever administration was in power. Most other liberalizations have been adopted with either luke-warm approval or mild opposition from the Administration. Very few changes beneficial to any sizeable groups of employees have been enacted over all-out active opposition from the Administration.

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The paragraph above would indicate that if the Agency, as a matter of policy, decides to go for more generous benefits, it will be essential to have active support from the Administration.

In the past there has not been any active opposition to retirement liberalization outside Government. Now we have organizations such as the National Taxpayers Union, the U.S. Chamber of Commerce, the Heritage Foundation, and the newly formed Citizens Against Waste. Each is well organized and well financed, and enthusiastically urging reductions in fringe benefits for Government employees. One of the publicly announced goals of organizations such as these is that the supplemental retirement system for new Government employees be considerably less generous than the present CSR system.

G. I agree that the supplemental retirement system for new CSR employees will be Social Security plus a defined benefit retirement system and an employee savings plan of some kind. I foresee the possibility that the appropriate Congressional Committees will go for one system for all employees, and then possibly agree to one set of special provisions for all special employees (not different special provisions for each separate group of special employees). If this possible course of action is anywhere close to what actually happens, it will be essential that the House and Senate Intelligence Committees stake out their turf and insist on retaining their jurisdiction over retirement benefits for Agency employees who are CIARDS types. I believe the Agency does not have a chance realistically of getting one special retirement system for all Agency employees without the all-out active backing of the Intelligence Committees.

H. In light of this Administration's budgetary approach to entitlement programs, plus the active opposition of non-governmental groups to even present levels of retirement benefits, I believe it nearly impossible to sell Congress on a package of improved retirement benefits.

This leaves the possibility of making a case that certain changes are essential or highly desirable to meet management needs of the Agency. Let us look at some of the possibilities with this criteria in mind.

1. It won't be easy to make a case that CIA needs to administer a separate retirement system for all its employees. Perhaps there have been security breakdowns over the years of a sort that would argue that none of the Agency's employees should be under a general CSR system administered by OPM. On the other hand, economy of scale would appear to raise questions of operating efficiency not easily resolved.

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2. A retirement benefit is not an appropriate reward for dangerous service. For one thing, the retirement benefit is enjoyed only by those employees who survive the hazard. Increased pay or allowances during performance of hazardous duty recognizes all employees assigned to such duty, and if included in Hi-3 average salary will also show up in retirement annuity. Early retirement is justified where the danger increases with age, and a higher annuity can be justified if needed to make the earlier retirement economically feasible for the employee.
3. A thrift plan (employee savings supplemented by employer contributions) can be used effectively to shift more responsibility for the amount of retirement income to the employee. However, the supplemental system should be designed so that Social Security plus a defined retirement benefit provide a high percentage of the income needed for a standard of living after retirement that compares favorably with that immediately before retirement. Less reliance should be placed on the savings plan because:
 - a. It is very difficult for employees in lower salary brackets to opt to lay aside the necessary savings. Thus a thrift plan on an optional basis is not the best way to assure adequate retirement income in later years for those who need it most.
 - b. A thrift plan is not as effective for assuring retirement income for relatively short career CIARDS types as it is for employees who retire at higher ages with longer years of participation. It is a very strong disincentive to early retirement, because an employee can see that the greatest growth in the accumulation in a thrift plan occurs in the later years of a career.
4. I am disturbed by any suggestion that a basic benefit be available only after 25 years of service. In F.Y. 1984 one out of every six employees who retired under CIARDS had less than 25 years of service. It would appear these retirements are essential to keeping the service, as a whole, young and vigorous.

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5. Whether we use a Hi-3 or a Hi-5 average salary for annuity computation is not as important as many other elements. There is some logic behind use of the Hi-3. It was adopted to bring the amount of retirement income closer to final pay, with standard of living in mind. Social Security uses a career average, but this method got so far out of whack they had to adopt a system of indexing earnings in prior years to avoid inadequacy of benefits. The only real argument in favor of a Hi-5 is that it is cheaper.
6. The idea of a computation formula applicable to all employees which would include a higher percentage for overseas service (and for domestic qualifying service) is very appealing. Each year of overseas service could get 1/2 percent, or 3/4 percent, or one percent, higher than the percentage for regular domestic service. It wouldn't take much to make the CIARDS computation more generous than at present. To illustrate, the maximum difference now for an employee retiring under CIARDS as compared with CSR is 3 3/4 percent of Hi-3. If annuity under the regular CSR formula were increased by one percent of Hi-3 for each year of overseas service, an employee with just the 60 months overseas now needed to qualify for CIARDS would get 1.25 percent of Hi-3 more than the present CIARDS formula. More than one-third of CIARDS retirees have more than 10 years of qualifying service.

Domestic service that would qualify for the extra benefit would have to be defined quite precisely. The task of the Retirement Board would be made more difficult because now they only have to consider enough domestic service to bring the total of qualifying service to 60 months.

7. I doubt that the Agency wants most non-CIARDS types to retire after 25 years of service regardless of age. The trend in private industry in recent years has been one of encouraging longer work careers - even to the extent of a future change in retirement age for Social Security. However, if as a matter of policy the Agency wants careers to be generally limited to 25 years, this can be accomplished in a number of ways:

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- a. No retirement accruals after 25 years of service, or
- b. A maximum annuity equal to that earned after 25 years,
or
- c. A greatly reduced formula applicable to years after
25, or
- d. Mandatory retirement after 25 years unless the Agency
exempts the employee.

I. Brief Do's and Don'ts

- 1. Do design a supplemental retirement system that will
best serve Agency needs.
- 2. Do keep it simple.
- 3. Do try to get Administration support.
- 4. Do line up the Intelligence Committees to protect
their turf and retain jurisdiction over CIARDS.
- 5. Do make retention of the early retirement features of
CIARDS top priority.
- 6. Do sell any proposed changes on the basis of Agency
needs.
- 7. Do not try to sell changes as desirable improvements
in employees' fringe benefits. This won't fly in the
present climate.
- 8. Do not expect to sell the idea that regular Agency
employees (not CIARDS types) are more deserving of
liberal fringe benefits than are regular employees of
other agencies.

Agency Proposal I

RATIONALE AND RAMIFICATIONS FOR DEVELOPING PROPOSALS
FOR AN INDEPENDENT CIA SUPPLEMENTAL RETIREMENT PLAN
FOR ALL NEW EMPLOYEES HIRED AFTER 31 DECEMBER 1983

I. Basic Considerations

A. Under current Social Security and federal civilian retirement system law, new hires after 31 December 1983 will be required to be covered and contribute to both Social Security and civil service retirement. Total employee cost will be 14% of salary (7% civil service, 5.7% Social Security retirement and 1.3% Medicare.) This high employee cost can be expected to have a serious negative impact on employee recruitment unless some interim legislative action is taken by Congress. Some bills are currently under Congressional review but at this early point in time there is no indication of the form or timing of relief measures that will be supported.

B. Assuming that some tangible interim relief measures will be enacted and some form of government-wide supplemental plan will be proposed in early 1985, it is important to CIA that our specific needs are understood in terms of the provisions of supplemental plans applicable to CIA's employees. Such a plan should retain essentially the same or enhanced provisions as current law for early retirement without penalty, adequate benefits and employee contributions that are low enough to encourage recruitment and retention but sufficient to produce a reasonable annuity at a relatively young retirement age.

C. Both the Senate and House have initiated studies leading to the design and development of supplemental retirement plans for these federal employees but legislative proposals are not expected to be presented until early 1985. The substance of the final proposed provisions of these supplemental plans will not be publicly available until the latter part of calendar year 1984 (according to recent announcements by the Senate Governmental Affairs and the House Post Office and Civil Service Committees).

D. When these proposals are available we may find that the provisions for civil service type employees are consistent with the Agency's requirements or find them dysfunctional to our interests.

E. It is to the Agency's advantage to seek early Congressional understanding and support for our particular needs in supplemental retirement provisions both as regards our civil service and future CIARDS types of employees.

II. Rationale for Development and Establishment of a Supplemental Plan which Provides Separate Provisions Applicable for Civil Service and CIARDS Employees

A. Jurisdictional Rationale

The development of our independent CIA supplemental retirement system covering all new CIA employees would if enacted into law, provide a system with provisions specifically tailored to CIA's needs--at least as perceived at the time of enactment. Jurisdiction for administration of the system would be given to the DCI with Congressional oversight presumably by our current committees. Such an

independent system would not be under the jurisdiction of the Office of Personnel Management (OPM) and the rules and regulations promulgated by OPM applicable to regular governmental supplemental plans. The independent status of such a system would provide exclusion from the vicissitudes of future legislation and/or "reforms" targetted at the federal civil service systems at large. The same independent status however, would require CIA legislative effort to obtain future amendments to our law in order to adopt desirable adjustments made in the regular federal retirement system.

B. Strategic Rationale

The development of an overall supplemental plan divided into two sub-plans (one applicable to civil service and one for CIARDS types) fully developed in terms of specific provisions for participation, age and service retirement eligibilities and benefits with employee/employer costs based on actuarial analysis for each specific category, would provide the Agency the options to:

1. Go for the total system covering both civil service and CIARDS under new legislation or;
2. Elect to propose only a CIARDS supplemental plan through an amendment to the CIA Retirement Act of 1964.

The policy decision on the type of plan to pursue could be influenced by indications in the Congress of their reluctance to sponsor separate legislation until such a time as their own studies have been completed in late 1984 or a willingness to only support a special plan covering future CIARDS employees. CIARDS coverage would not be tangibly applicable until 1989 or 1990 at the earliest based upon current eligibility criteria. Lack of a CIARDS sub-plan early on however would have a negative effect in recruiting personnel for careers in the clandestine services.

C. Arrangements in Support of a Total Coverage Plan

Historically Congressional understanding of the unique nature of the Agency's clandestine activities and the special factors relative to employees engaged in operational activities have generated support for preferred treatment as regards early retirement and higher benefit computation rates for this relatively small percentage (approx 20%) of the work force. The rationale and/or arguments regarding the Agency's historical interest in maintaining relatively early retirement patterns for scientific, analytical, and support personnel are not so clearly convincing. The essence of past arguments have been based upon:

1. A conviction that the CIA work force at large must be composed of personnel who are creative, dynamic and current with the state-of-the-art. Early retirement has been encouraged and has limited a build up of "on-boards" who have lost their enthusiasm and spark, content with the status quo or entrenched in their thinking and approach.
2. The predictability of early retirement patterns have provided a basis for broadening rotational assignments, timely promotions and management of non-operational personnel on a career system basis (rather than a job basis) just as operational careerists are managed.

3. The risk of the inclusion of CIA's civil service type employees under some future government-wide supplemental plan which might impose penalties for early retirement and defer full benefits to age 65 or later must be evaluated in terms of possible negative impact on the of the CIA's total effort.

D. Conclusions

The tasking of Hay Associates to develop a number of composite supplemental plans with various options (fully staffed out in terms of benefits and costs) should provide the Agency with the wherewithal to move in several directions. Once the data has been made available and analyzed a policy decision can be made as to which options CIA top management elects to pursue.